



HF 2174 – Geothermal Tax Credit (LSB5658HH)

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Fiscal Note Version – New

Description

House File 2174 creates a new Geothermal Tax Credit. The tax credit is equal to 25.0% of qualified geothermal heat pump installation expenditures. The new credit is available for residential installations. The total amount of tax credits issued in a year is limited to \$2.5 million and the maximum credit awarded would be capped at \$10,000 for each separate and distinct geothermal installation. If tax credit applications exceed the limit, qualified but unsuccessful applications are placed on a wait list for the tax credits available the next year. The tax credit is not refundable or transferable but unused amounts may be carried forward to future tax years. The tax credit is first available for calendar year 2017.

Background

Iowa currently has a Geothermal Heat Pump Tax Credit equal to 20.0% of an existing federal heat pump installation credit. The federal credit is equal to 30.0% of installation costs so the current Iowa credit equals 6.0% of installation costs. However, the federal credit is set to expire at the end of calendar year 2016.

Assumptions

Iowans claimed an average of \$2.0 million in Geothermal Heat Pump Tax Credits from tax year 2012 through tax year 2014. At an effective credit rate of 6.0% of installation costs, the imputed annual installation cost exceeds \$32.0 million. With the proposed tax credit equal to 25.0% of installation cost, the tax credit is expected to be over-subscribed and a wait list will likely develop.

As a nonrefundable, nontransferable tax credit, each year's tax credits will be redeemed through tax return filing over several tax years. The assumed redemption pattern is:

- Year 1 = 50.0%
- Year 2 = 22.0%
- Year 3 = 12.1%
- Years 4 through 6 = 5.3%

Tax credits for calendar year 2017 installations are assumed to first impact the General Fund in FY 2018.

Fiscal Impact

Redemptions of the new Geothermal Tax Credit are projected to reduce State General Fund revenue by the following amounts:

- FY 2018 = \$1.3 million
- FY 2019 = \$1.8 million
- FY 2020 = \$2.1 million
- FY 2021 = \$2.2 million
- FY 2022 = \$2.4 million
- FY 2023 and future years = \$2.5 million

With demand for the new 25.0% tax credit expected to exceed \$8.0 million per year and an annual tax credit limit of \$2.5 million, it is likely a significant wait list of tax credit applications will develop.

As a nonrefundable tax credit, the Geothermal Tax Credit will also reduce the local option income surtax for schools by a projected \$37,500 for FY 2018, growing to \$75,000 for FY 2023 and after.

Sources

Department of Revenue
Legislative Services Agency Analysis

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
